

Financial Statements

City of Ithaca

**Ithaca, Michigan
June 30, 2008**



City of Ithaca
June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Ithaca
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information in this report are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The script is cursive and fluid, with the letters connected.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 10, 2008

MANAGEMENT'S DISCUSSION and ANALYSIS



Management's Discussion and Analysis

As management of the City of Ithaca, Michigan (the "City"), we offer readers of the City's financial statements, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2008. The management's discussion and analysis (MD&A) is intended to assist you in focusing on significant financial issues and provide an overview of the City's financial activity. This annual financial report is presented in conformity with the requirements of GASB Statement No. 34. The basic financial statements include two types of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's financial position. The remaining statements are fund financial statements that focus on individual sections of the City's operations. The City encourages readers to consider the following information in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

- The net assets of the City are the amount by which the City's assets exceeded its liabilities. At June 30, 2008, net assets of the primary government totaled \$9,468,349. The unrestricted portion of this amount, \$3,301,162 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$85,421. This increase resulted from a decrease in net assets of the governmental activities of \$145,226 and an increase in net assets of business activities by \$230,647. The increase, though slight, was achieved by careful spending in a struggling economy for the State of Michigan. It has been said by economists that Michigan is currently in a one-state recession. The budget crises faced by the State last fiscal year, now bleeds over into the new fiscal year. State Revenue Sharing continues to be threatened during the budget process, not only at the local level, but at the County level also; which in turn has a direct effect on the City. The City continues to budget below the estimated revenue sharing projection in the event funds are cut at the State level. This will help maintain the City's fiscal responsibility to its taxpayers, residents and businesses.
- At June 30, 2008, the City's governmental funds reported combined ending fund balances of \$1,092,887. This is a decrease of \$162,363 from the prior year. This decrease is due mainly to the activity of the street funds; which is discussed in more detail later in this analysis. Of the total fund balance for governmental funds \$1,067,978 is available for spending at the City's discretion (unreserved fund balance).
- The City's long-term debt consists of a debt for a Fire Truck in the non-major governmental activities, compensated absences for full-time employees and the enterprise bond funds. A detailed schedule of the City's long-term obligations can be found in the notes to financial statements.

- In November of 2006, City electors passed a millage for the issuance of General Obligation Bonds in the amount of \$4,100,000 for the improvements to the City's Water Supply and Sewage Disposal Systems. Included with the improvements were the purchase of a new Sewer Vactor, a new Lift Station, watermain upgrades, and an Aquifer Analysis. The bonds were issued in April of 2007 and are due in annual installments of \$170,000 to \$210,000 with annual interest rates of 4.25% to 4.40% through November of 2037. The bonds received a rating of B+ by Moody's but insured for issuance to a rating of AAA. If not for the economic condition of the State of Michigan, a rating of AA- would have been received. The first millage was applied to the 2007 summer property tax collection at a rate of 3.0 mills. The millage rate for 2008 remained at a rate of 3.0 mills.
- Liberty Renewable Fuels, LLC began construction of Michigan's largest ethanol plant in the North Star Renaissance Zone, located in the City through a Public Act 425 transfer of property. The project is being built for an estimated \$160 Million. Conservatively, if the taxable value is one-third of the construction value, it will match the taxable value of the City at an estimated \$52 Million. The property is located in the Renaissance Zone, which is tax free with the exception of bond indebtedness. The City passed a bond indebtedness millage (as discussed in the prior point) authorizing the borrowing of \$4,100,000. The financial impact with the Liberty Renewable Fuels project will be that the millage needed to pay this bond by the rest of the community will virtually be cut in half upon build-out of the project. As of June 30, 2008, construction was halted due to reorganization of company ownership.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements are divided into three categories:

- *Governmental Activities* – The majority of the City’s basic services are included here and are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, streets, library, parks, cemetery, and economic development.
- *Business-type Activities* – The City charges fees to customers to help it cover the costs of providing certain services. The City’s Water Supply and Sewer Disposal Systems are included here.
- *Component Units* – The City (known as the *primary government*), also has a legally separate authority for which the City is financially accountable. The Downtown Development Authority is a separate authority and its financial information is reported here.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash and other financial assets can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer resources that can be spent in the near future to finance City programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, you will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven major and nine non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue and capital project funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the combining statements section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Budget comparison statements have also been provided for the other major funds. These can be found in the required supplementary information section of this report.

Proprietary funds: The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System and Sewage Disposal System. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Equipment and Material Funds. The services of the Equipment and Material predominantly benefit governmental rather than business-type functions, and have been included in their entirety within governmental activities in the government-wide financial statements.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its employee benefit obligations and funds held by the City in an Agency capacity (i.e. property taxes due to other taxing units).

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB statement 34 regarding the City's budgetary comparison of the general fund and six major special revenue funds. This supplementary information is contained behind its own tab following the footnotes to financial statements.

Government-wide Financial Analysis:

The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. As previously mentioned, this can provide a good indicator of the City's fiscal health. Following is a summarized version of the Statement of Net Assets to provide you with a perspective of the financial position of the City as a whole.

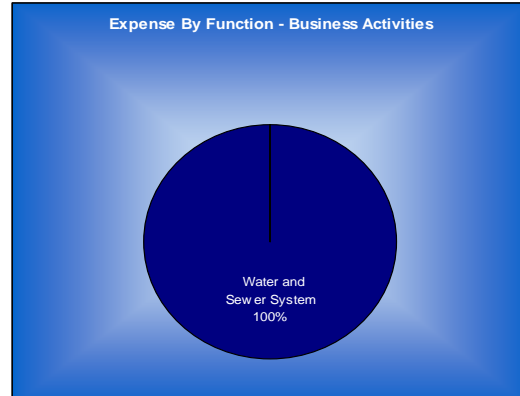
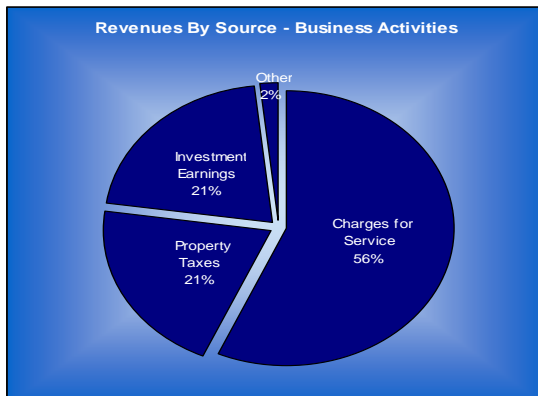
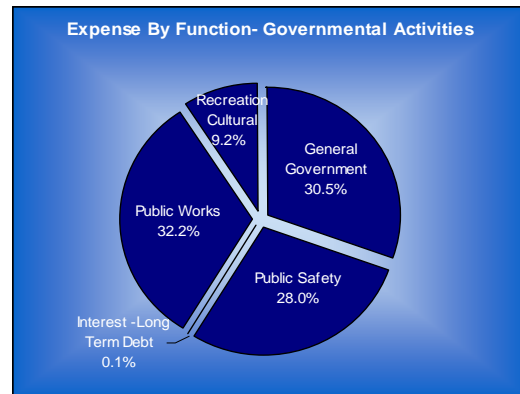
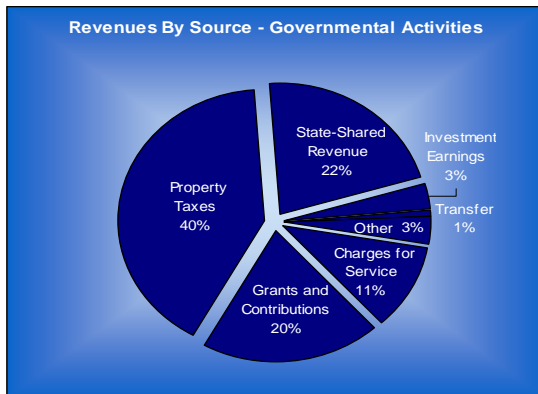
City of Ithaca, Michigan Net Assets							
	Governmental Activities			Business-Type Activities			Total
	2008	2007		2008	2007		2008 2007
Assets:							
Current and Other Assets	2,696,265	2,715,035		3,502,201	5,228,602		6,198,466 7,943,637
Capital Assets	1,433,539	1,487,147		7,017,013	4,501,721		8,450,552 5,988,868
Total Assets	4,129,804	4,202,182		10,519,214	9,730,323		14,649,018 13,932,505
Liabilities:							
Long Term Debt	97,011	104,030		4,113,123	4,113,162		4,210,134 4,217,192
Other Liabilities	312,257	232,390		658,278	99,995		970,535 332,385
Total Liabilities	409,268	336,420		4,771,401	4,213,157		5,180,669 4,549,577
Net Assets:							
Invested in capital assets, net of related debt	1,433,539	1,487,147		4,687,077	4,351,150		6,120,616 5,838,297
Restricted	46,571	251,398		0	0		46,571 251,398
Unrestricted	2,240,426	2,127,217		1,060,736	1,166,016		3,301,162 3,293,233
Total Net Assets	3,720,536	3,865,762		5,747,813	5,517,166		9,468,349 9,382,928

The total net assets of the City are \$9,468,349. However, \$6,120,616 represents its investment in capital assets net of related debt (i.e. land, buildings, equipment, vehicles, water and sewer systems), with 77% being the water supply and sewage disposal systems' infrastructure. These assets are used to provide services to residents; but are not available for future spending nor can they be used to liquidate their liabilities.

Of the more liquid assets, \$46,571 represents resources and funds that have external restrictions on how they may be used. These assets are held for street maintenance and perpetual care of the city cemetery. The City may use the remaining balance (unrestricted net assets) for ongoing obligations to residents and creditors. The total net assets for the year increased by \$85,421.

City of Ithaca, Michigan Change In Net Assets

	Governmental Activities			Business-Type Activities		Total	
	2008	2007		2008	2007	2008	2007
Revenues:							
Program Revenues:							
Charges for Services	237,448	292,144		535,625	513,790	773,073	805,934
Grants and contributions	447,397	400,703		0	0	447,397	400,703
General Revenues:							
Property Taxes	919,577	893,355		194,906	183,351	1,114,483	1,076,706
State-shared Revenues	492,411	353,065		0	0	492,411	353,065
Investment Earnings	69,751	78,983		199,079	74,494	268,830	153,477
Transfers	18,729	117,171		0	(127,171)	18,729	(10,000)
Other	73,173	64,414		16,721	15,898	89,894	80,312
Total Revenues	2,258,486	2,199,835		946,331	660,362	3,204,817	2,860,197
Expenses:							
General Government	733,067	732,085		0	0	733,067	732,085
Public Safety	673,971	662,944		0	0	673,971	662,944
Public Works	775,143	498,873		0	0	775,143	498,873
Recreation and cultural	220,064	220,398		0	0	220,064	220,398
Interest on long term debt	1,467	2,155		0	0	1,467	2,155
Water and Sewer	0	0		715,684	678,083	715,684	678,083
Total Expenses	2,403,712	2,116,455		715,684	678,083	3,119,396	2,794,538
Change in Net Assets	(145,226)	83,380		230,647	(17,721)	85,421	65,659
Net Assets – July 1	3,865,762	3,782,382		5,517,166	5,534,887	9,382,928	9,317,269
Net Assets – June 30	3,720,536	3,865,762		5,747,813	5,517,166	9,468,349	9,382,928



Budgetary Highlights

The City of Ithaca has three main revenue sources, those being property taxes, charges for utility services and State shared revenue, on which the majority of the budget is based. Ithaca continues to have a conservative fiscal philosophy in being good stewards of the public's money. This philosophy has translated into preparing for economic challenges while maintaining the solid foundation of our operations.

The City of Ithaca also writes for and has been very successful in receiving grants to maximize our financial resources for additional unbudgeted projects and/or equipment. Grants are sometimes awarded with a match requirement. In these awards, the City must pay a stated percentage of the grant award, which may range from 5%-50%. This year, the City received such grants for emergency services equipment and turnout gear/supplies. The "match" was taken from the fund balance of the appropriate funds, which because of the City's fiscal responsibility, it is able to do. The City further received grant funding, which is detailed later, for a street rebuild project and streetscape enhancement project. The City qualified for the grants based on new job creation and new business.

The annual budget is a forecast for City operations that is based on upcoming projects, five years of actual figures and estimated current expenditures. Throughout the course of the year, events happen which alter the decisions of which the budget figures are based and amendments must be made. The City of Ithaca made amendments to revenues in the governmental activities in the net amount of \$5,493 for grants received, fund transfers due to project changes and a contingent sale which failed of a lot in Westwind Subdivision. Further, amendments were made to the business-type activities in the amount of \$10,000 to adjust revenues to actual amounts received. The City also made amendments to the expenditures in the governmental activities in the net amount of \$13,517 for the matching portion of awarded grants, reductions for expenses not incurred, reductions for projects not completed or delayed, and the purchase of street light poles due to damage. The business-type activities had amendments in the amount of \$598,000 which were made for expenses incurred for the water/sewer bond project.

The Major and Local Street Funds for the City had two projects that had a major impact on their respective funds. The first was the completion of the rebuild of South Pine River Street. This project had a cost of \$780,000, which was substantially offset with 80% of the construction costs being paid through the Michigan State Transportation Economic Development Fund "D" dollars as allocated by the region's rural road task force. The remaining 20% and the engineering costs depleted the fund balance that has been built up over the past few years anticipating this project.

The second major impact was the hard winter experienced. With the majority of snowstorms occurring on weekends and holidays, the labor costs affixed to responding to the snow clearing were greater than a normal year. The unusual ice events caused depletion of the City's salt supply and created larger equipment and material costs in applying the salt. This has been addressed in the next budget year to plan for additional costs; however the long term forecast is for a lighter winter than the last.

The City continued to maximize financial resources in improving our transportation needs by completing a streetscape enhancement project in the downtown through a combination of a Michigan Community Development Block Grant program and the MDOT Enhancement Grant Program.

Economic Forecast

The year 2008 is a Presidential Election year. Despite the struggling economy of the State of Michigan, and the financial issues facing our Nation's leaders, the City of Ithaca maintains a stable economy. The City's modest tax base has grown at a steady but relatively slow pace over the past five years. Serving as the County Seat of Gratiot County, it is anticipated that moderate tax base growth will continue. Nearby Alma College and Central Michigan University, along with a strong local school system, and local infrastructure improvements, the City provides considerable stability to our community.

The City of Ithaca is proud to offer two Michigan Renaissance Zones, two Certified Industrial Parks and three recreational parks to businesses and residents. Michigan agriculture plays an important role in several of the City's retail and manufacturing businesses. Through business replies from state economic agencies, the City has a steady pace of requests for information about our services and industrial park options. The largest active project to note is the construction of Liberty Renewable Fuels, LLC in one of the aforementioned Renaissance Zones. Construction was underway, but stalled after the company came up short to meet its all-Michigan equity drive. The company is in active discussions with other investors on completing the financing required to finish the \$160 Million ethanol plant. The plant is expected to create fifty new jobs after it's completion in 2009. The conservative taxable value estimated on the plant is equal to that of the City in its entirety.

The City continues to maintain positive fund balances in each of its funds; however, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. As previously stated, the major sources of revenue for the City are property taxes, state-shared revenues, and charges for services. These sources have certain limitations outside of the City's control; the State of Michigan is experiencing a one state recession. The housing and mortgage lending markets are in trouble and the nation is faced with serious financial issues. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care, natural gas and fuel prices). We are continuing to plan for the long term and will continue to balance the budgets through controls of spending, while still providing the City's residents with the same level of service to which they have become accustomed.

The City of Ithaca continues to be a leader in initiating and participating in intergovernmental cooperation projects. Projects such as the joint county-wide Master Plan, joint purchasing, sharing of equipment, joint road projects and engineering studies have allowed the City to maximize its services while sharing the costs with other communities implementing similar services. This coordination has already saved financial resources for the City and has set up a foundation for future cooperation among our neighboring communities and with the County.

Contacting the City's Financial Management Team

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager or the City Clerk-Treasurer at:

City of Ithaca
129 W. Emerson Street
Ithaca, Michigan 48847-1017

Phone: 989/ 875-3200
Facsimile: 989/ 875-4064
Email: ithacacity@charterinternet.com
Website: www.ithacami.com

Brad Heffner

City Manager

Barbara Fandell

City Clerk-Treasurer

BASIC FINANCIAL STATEMENTS - GOVERNMENT WIDE FINANCIAL STATEMENTS



City of Ithaca
Statement of Net Assets
June 30, 2008

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current assets				
Cash and investments	\$1,283,029	\$3,120,251	\$4,403,280	\$60,423
Property taxes receivable	887,321	194,093	1,081,414	19,219
Other receivables - net	39,178	124,619	163,797	-
Special assessments receivable	59,173	-	59,173	-
Due from other governments	269,040	-	269,040	-
Internal balances - net	4,874	-	4,874	-
Inventories	-	23,605	23,605	-
Total current assets	2,542,615	3,462,568	6,005,183	79,642
Noncurrent assets				
Long term notes receivable - net	153,650	-	153,650	-
Deferred charges	-	39,633	39,633	-
Capital assets - net	1,433,539	7,017,013	8,450,552	-
Total noncurrent assets	1,587,189	7,056,646	8,643,835	-
Total assets	4,129,804	10,519,214	14,649,018	79,642
Liabilities				
Current liabilities				
Accounts payable	256,837	608,728	865,565	2,114
Accrued and other liabilities	38,157	5,851	44,008	-
Accrued interest	-	43,699	43,699	-
Current portion of long-term debt	17,263	-	17,263	-
Total current liabilities	312,257	658,278	970,535	2,114
Noncurrent liabilities				
Customer deposits	-	13,123	13,123	-
Compensated absences	97,011	-	97,011	-
Long-term debt	-	4,100,000	4,100,000	-
Total noncurrent liabilities	97,011	4,113,123	4,210,134	-
Total liabilities	409,268	4,771,401	5,180,669	2,114
Net assets				
Invested in capital assets, net of related debt	1,433,539	4,687,077	6,120,616	-
Restricted for				
Streets and highways	21,662	-	21,662	-
Perpetual care	24,909	-	24,909	-
Unrestricted	2,240,426	1,060,736	3,301,162	77,528
Total net assets	\$3,720,536	\$5,747,813	\$9,468,349	\$77,528

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities
For The Year Ended June 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
				Primary Government			
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government							
General government	\$733,067	\$87,482	\$9,235	(\$636,350)	-	(\$636,350)	-
Public safety	673,971	146,853	19,952	(507,166)	-	(507,166)	-
Public works	775,143	-	280,849	(494,294)	-	(494,294)	-
Recreation and cultural	220,064	3,113	137,361	(79,590)	-	(79,590)	-
Interest on long-term debt	1,467	-	-	(1,467)	-	(1,467)	-
Total governmental activities	2,403,712	237,448	447,397	(1,718,867)	-	(1,718,867)	-
Business-type activities							
Water and Sewer	715,684	535,625	-	-	(\$180,059)	(180,059)	-
Total primary government	\$3,119,396	\$773,073	\$447,397	(1,718,867)	(180,059)	(1,898,926)	-
Component units							
Downtown Development Authority	\$28,374	-	-	-	-	-	(\$28,374)
General Revenues							
Property taxes				919,577	194,906	1,114,483	17,610
State-shared revenues				492,411	-	492,411	-
Unrestricted investment earnings				69,751	199,079	268,830	1,203
Transfers				18,729	-	18,729	(18,729)
Miscellaneous				73,173	16,721	89,894	1,826
Total general revenues				1,573,641	410,706	1,984,347	1,910
Change in net assets				(145,226)	230,647	85,421	(26,464)
Net assets - beginning of year				3,865,762	5,517,166	9,382,928	103,992
Net assets - end of year				\$3,720,536	\$5,747,813	\$9,468,349	\$77,528

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS



City of Ithaca
Balance Sheet - Governmental Funds
June 30, 2008

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Assets									
Cash and investments	\$185,965	\$64,095	\$71,281	\$148,997	\$34,704	\$53,243	\$223,208	\$251,207	\$1,032,700
Accounts receivables - net	20,639	-	-	-	-	14,687	-	3,852	39,178
Notes receivable	-	-	-	-	153,650	-	-	-	153,650
Due from other funds	5,366	-	-	-	-	-	16,172	-	21,538
Due from other governments	218,191	38,330	9,666	2,853	-	-	-	-	269,040
Total assets	\$430,161	\$102,425	\$80,947	\$151,850	\$188,354	\$67,930	\$239,380	\$255,059	\$1,516,106
Liabilities and fund balances									
Liabilities									
Accounts payable	\$56,724	\$81,295	\$62,645	\$4,192	-	\$6,610	-	\$4,554	\$216,020
Accrued liabilities	31,897	572	1,026	2,224	-	497	-	1,161	37,377
Due to other funds	-	-	16,172	-	-	-	-	-	16,172
Deferred revenue	-	-	-	-	\$153,650	-	-	-	153,650
Total liabilities	88,621	81,867	79,843	6,416	153,650	7,107	-	5,715	423,219
Fund balances									
Reserved for perpetual care	-	-	-	-	-	-	-	24,909	24,909
Unreserved, undesignated, reported in:									
General fund	341,540	-	-	-	-	-	-	-	341,540
Special revenue funds	-	20,558	1,104	145,434	34,704	60,823	\$239,380	224,435	726,438
Total fund balances	341,540	20,558	1,104	145,434	34,704	60,823	239,380	249,344	1,092,887
Total liabilities and fund balances	\$430,161	\$102,425	\$80,947	\$151,850	\$188,354	\$67,930	\$239,380	\$255,059	\$1,516,106

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended June 30, 2008

Total fund balance - governmental funds	\$1,092,887
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	3,698,607
Deduct: accumulated depreciation	(2,605,809)

Long-term portion of special assessment activity is not available in the current period and not due and payable in the current period and therefore are not reported in the funds. That related special assessment activity consists of:

Add: special assessment receivable	59,173
Deduct: special assessment payable	(33,334)

Internal service funds are used by management to charge the cost of equipment rents and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	582,315
---	---------

Governmental funds do not report revenues until collected or collectible within 60 days of year-end. However, in the statement of activities, revenues are recorded when earned, regardless of the timing of cash flows.

Add: property tax receivable	887,321
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Deferred revenues reported in governmental funds balance sheet includes the balance of long-term loans receivable. The balance was deferred in the fund financial statements because the funds were not available to pay for current-period expenditures.

Add: balance of long term loan receivable	153,650
---	---------

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: notes payable	(17,263)
Deduct: compensated absences	(97,011)

Total net assets - governmental activities	\$3,720,536
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The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes and penalties	\$884,810	-	-	-	-	-	-	-	\$884,810
Licenses and permits	68,816	-	-	-	-	-	-	-	68,816
Federal grants	-	-	-	-	-	\$19,952	-	-	19,952
State grants	492,411	\$221,862	\$58,987	\$9,095	-	-	-	-	782,355
Charges for services	-	-	-	3,113	-	110,585	-	\$54,934	168,632
Contribution from local units	-	-	8,160	-	-	-	-	1,075	9,235
Fines and forfeits	-	-	-	128,266	-	-	-	-	128,266
Interest and rentals	33,389	5,505	187	8,209	\$157	1,865	\$6,784	5,876	61,972
Other revenues	41,247	99	18,164	9,849	21,500	11,195	-	2,126	104,180
Total revenues	1,520,673	227,466	85,498	158,532	21,657	143,597	6,784	64,011	2,228,218
Expenditures									
General government	660,167	-	-	-	-	-	-	55,490	715,657
Public safety	431,316	-	-	-	-	160,938	-	60,801	653,055
Public works	240,975	362,851	186,150	-	18,500	-	-	-	808,476
Recreation and cultural	98,516	-	-	116,697	-	-	-	-	215,213
Debt service	-	-	-	-	-	-	-	16,909	16,909
Total expenditures	1,430,974	362,851	186,150	116,697	18,500	160,938	-	133,200	2,409,310
Excess of revenues over (under) expenditures	89,699	(135,385)	(100,652)	41,835	3,157	(17,341)	6,784	(69,189)	(181,092)
Other financing sources (uses)									
Transfers in	27,355	-	111,398	-	-	69,646	-	119,603	328,002
Transfers out	(168,340)	(81,398)	-	-	-	(36,909)	(8,626)	(14,000)	(309,273)
Total other financing sources (uses)	(140,985)	(81,398)	111,398	-	-	32,737	(8,626)	105,603	18,729
Excess of revenues and other sources over (under) expenditures and other uses	(51,286)	(216,783)	10,746	41,835	3,157	15,396	(1,842)	36,414	(162,363)
Fund balance, beginning of year	392,826	237,341	(9,642)	103,599	31,547	45,427	241,222	212,930	1,255,250
Fund balance, end of year	<u>\$341,540</u>	<u>\$20,558</u>	<u>\$1,104</u>	<u>\$145,434</u>	<u>\$34,704</u>	<u>\$60,823</u>	<u>\$239,380</u>	<u>\$249,344</u>	<u>\$1,092,887</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Change in fund balances - total governmental funds	(\$162,363)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add:	capital outlay	48,360
Deduct:	depreciation expense	(100,708)

Governmental funds do not report revenues until collected or collectible within 60 days of year-end. However, in the statement of activities, revenues are recorded when earned, regardless of the timing of cash flows.

Add:	change in property tax accrual	34,767
Deduct:	long-term loan receivable payments	(21,500)
Deduct:	special assessment payments	(11,164)

Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and materials, to individual funds. The net income/expense of the internal service funds is reported with governmental activities.

Add:	net income of internal service funds	28,491
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Payment of principal on long-term debt or special assessments is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add:	payment of principal on long-term debt	15,442
Add:	payment of principal on special assessment	33,333

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct:	increase in accrual for compensated absences	(9,884)
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Change in net assets - governmental activities	<u><u>(\$145,226)</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Assets		
Current assets		
Cash and investments	\$3,120,251	\$250,329
Trade accounts receivable - net	124,619	-
Property taxes receivable	194,093	-
Inventories	23,605	-
Total current assets	3,462,568	250,329
Noncurrent assets		
Deferred charges:		
Bond discount, net of amortization	39,633	-
Capital assets:		
Water and sewer system	9,268,666	-
Machinery and equipment	-	1,068,094
Less: accumulated depreciation	(2,251,653)	(727,353)
Total noncurrent assets	7,056,646	340,741
Total assets	10,519,214	591,070
Liabilities		
Current liabilities		
Accounts payable	608,728	7,483
Accrued and other liabilities	5,851	780
Accrued interest	43,699	-
Due to other funds	-	492
Total current liabilities	658,278	8,755
Noncurrent liabilities		
Long-term debt	4,100,000	-
Customer deposits	13,123	-
Total noncurrent liabilities	4,113,123	-
Total liabilities	4,771,401	8,755
Net assets		
Invested in capital assets, net of related debt	4,687,077	340,741
Unrestricted	1,060,736	241,574
Total net assets	\$5,747,813	\$582,315

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Operating revenues		
Water and sewer sales	\$523,713	-
Penalties and interest charges	9,909	-
Installation and other charges	1,393	\$8,083
Service charges	610	201,191
Property taxes	194,906	-
Total operating revenues	730,531	209,274
Operating expenses		
Personnel services	209,696	25,120
Contractual services	57,466	292
Utilities	1,864	8,543
Repairs and maintenance	4,441	6,139
Other supplies and expenses	94,221	83,567
Depreciation	171,334	66,558
Amortization	1,367	-
Debt service:		
Interest expense	174,795	-
Debt service costs	500	-
Total operating expenses	715,684	190,219
Operating income (loss)	14,847	19,055
Nonoperating revenues (expenses)		
Interest revenue	199,079	7,779
Gain on sale of capital assets	-	1,657
State sources	16,721	-
Total nonoperating revenues (expenses)	215,800	9,436
Change in net assets	230,647	28,491
Total net assets, beginning of year	5,517,166	553,824
Total net assets, end of year	<u>\$5,747,813</u>	<u>\$582,315</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Cash flows from operating activities		
Receipts from customers	\$545,843	\$210,345
Payments to suppliers / outsiders	(89,778)	(93,345)
Payments to employees	(210,795)	(24,561)
Other receipts - taxes	184,104	-
Net cash provided by operating activities	429,374	92,439
Cash flows from noncapital financing activities		
Grants received	16,721	-
Net cash provided by noncapital financing activities	16,721	-
Cash flows from capital and related financing activities		
Purchases of capital assets	(2,234,910)	(69,021)
Proceeds from sale of capital assets	-	5,380
Debt service costs	(175,295)	-
Net cash provided by (used in) capital and related financing activities	(2,410,205)	(63,641)
Cash flows from investing activities		
Interest revenue	199,079	7,779
Net increase (decrease) in cash and cash equivalents	(1,765,031)	36,577
Cash and cash equivalents, beginning of year	4,885,282	213,752
Cash and cash equivalents, end of year	<u>\$3,120,251</u>	<u>\$250,329</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$14,847	\$19,055
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	171,334	66,558
Amortization expense	1,367	-
Debt service costs	175,295	-
Change in assets and liabilities		
Receivables - net	(545)	1,071
Inventories	1,695	-
Accounts and other payables	65,381	5,755
Net cash provided by operating activities	<u>\$429,374</u>	<u>\$92,439</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Fiduciary Funds
June 30, 2008

	<u>Agency Fund</u>
Assets	
Cash and equivalents	<u>\$16,940</u>
Total assets	<u>16,940</u>
Liabilities	
Accounts payable	12,066
Due to other funds	<u>4,874</u>
Total liabilities	<u>16,940</u>
Net assets	
Unrestricted	<u>-</u>
Total net assets	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Component Units
June 30, 2008

	<u>Downtown Development Authority</u>
Assets	
Cash and investments	\$60,423
Property taxes receivable	<u>19,219</u>
 Total assets	 <u>79,642</u>
Liabilities	
Accounts payable	<u>2,114</u>
Net Assets	
Unrestricted	<u>77,528</u>
 Total net assets	 <u><u>\$77,528</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities - Component Units
For the Year Ended June 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
Downtown Development Authority				
General government	<u>\$28,374</u>	<u>-</u>	<u>-</u>	(\$28,374)
General Revenues				
	Property taxes			17,610
	Unrestricted investment earnings			1,203
	Transfers			(18,729)
	Miscellaneous			<u>1,826</u>
	Total general revenues			1,910
	Change in net assets			(26,464)
	Net assets, beginning of year			<u>103,992</u>
	Net assets, end of year			<u><u>\$77,528</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Ithaca (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City of Ithaca, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Downtown Development Authority - The Ithaca Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of thirteen individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The City is financially accountable for the Downtown Development Authority's activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Ithaca
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

City of Ithaca
Notes to Financial Statements

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the City as a trustee or agency capacity on behalf of others and, therefore, are not available to support City operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City's operations. The City currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state revenue sharing revenues that are restricted for use on local streets.

City of Ithaca
Notes to Financial Statements

The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The Economic Development Fund accounts for resources used to promote economic development of the City.

The Fire Fund accounts for resources used to provide fire services to residents of the City of Ithaca and surrounding townships.

The Gibbs Memorial Fund accounts for resources to fund special projects.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

Assets, Liabilities and Net Assets or Equity

Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

City of Ithaca
Notes to Financial Statements

Property Taxes

The City's property tax is levied on August 1st and December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

Although the City's 2007 ad valorem tax is levied and collectible on August 1st and December 1st, 2007, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 taxable valuation of property located in the City for operating purposes totaled \$54.3 million, on which ad valorem taxes levied consisted of 14.0267 mills for operating and 1.4467 mills for emergency service, raising \$777 thousand for operating, and \$80 thousand for emergency services. These amounts are recognized in the general fund as tax revenues. Also, the 2007 taxable valuation of property located in the City for water/sewer debt totaled \$60.0 million, on which ad valorem taxes levied consisted of 3.0000 mills, raising \$194 thousand for debt retirement purposes.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

City of Ithaca
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Operating Equipment	3 – 20
Computer Equipment	3 – 5
Vehicles	7-10
Buildings and Improvements	20-50
Infrastructure	25
Land	Not Applicable – Not Depreciated

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

City of Ithaca
Notes to Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The City does not maintain a formalized encumbrance accounting system.

City of Ithaca
Notes to Financial Statements

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

NOTE 3 - DETAIL NOTES

Cash and Investments

The City has designated six banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in:

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and equivalents	\$949,083	\$1,525,929	\$2,475,012	\$16,940	\$59,077
Investments	333,946	1,594,322	1,928,268	-	1,346
Totals	\$1,283,029	\$3,120,251	\$4,403,280	\$16,940	\$60,423

The bank balance of the primary government's deposits is \$2,475,012, of which \$300,000 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$59,077, of which all is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

City of Ithaca
Notes to Financial Statements

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

As of June 30, 2008, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Fitch's Rating	%
Michigan Cooperative Liquid Assets Securities System (Michigan CLASS)	\$1,928,268	.0027	AAA-V1	100%
Total fair value	\$1,928,268			
Portfolio weighted average maturity		.0027		
1 day maturity equals 0.0027, one year equals 1.00				

Interest rate risk. In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

City of Ithaca
Notes to Financial Statements

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. See above for amount of deposits held by the City that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

Receivables

Receivables as of year-end for the City's individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Fire Operating Fund	Library fund	Non-Major and other funds	Total
Accounts	\$5,039	-	-	\$14,687	-	\$3,852	\$23,578
Sale of Westwind Estates	15,600	-	-	-	-	-	15,600
Special Assessments	-	-	\$59,173	-	-	-	59,173
From other governments	218,191	\$38,330	9,666	-	\$2,853	-	269,040
Totals	\$238,830	\$38,330	\$68,839	\$14,687	\$2,853	\$3,852	\$367,391

Additionally, the economic development fund reports \$153,650 of notes receivable as of June 30th.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue consisted of a note receivable in the amount of \$153,650.

City of Ithaca
Notes to Financial Statements

Interfund Receivables, Payables and Transfers - The composition of interfund balances is as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$5,366	
Local Street		\$16,172
Gibbs Memorial	16,172	
Internal Service Fund		492
Trust & Agency		4,874
Totals	\$21,538	\$21,538

Transfers between funds during the year were as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Local Street	General	\$30,000
Fire Operating		69,646
Cemetery Operating		30,000
First Responder		<u>38,694</u>
Sub-total		168,340
Local Street	Major Street	81,398
Cemetery Operating	Cemetery Sinking	10,000
General	Gibbs Memorial	8,626
	Tax Increment Finance	<u>18,729</u>
Sub-total		27,355
Fire / Rescue Sinking	Fire Operating	36,909
	First Responder	<u>4,000</u>
Sub-total		<u>40,909</u>
Total Interfund Transfers		\$328,002

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the major street fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the local street fund. The cemetery fund transfers are used to provide resources for cemetery operations. The first responder / fire operating / fire and rescue sinking fund transfers are used to provide resources for fire operations and debt service payments.

City of Ithaca
Notes to Financial Statements

Capital Assets

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
ASSETS				
Land	\$154,758	\$18,500	-	\$173,258
Buildings	1,597,901	-	-	1,597,901
Equipment / Vehicles	2,925,209	98,881	(\$5,956)	3,018,134
Infrastructure	7,023	-	-	7,023
Subtotal	4,684,891	117,381	(5,956)	4,796,316
ACCUMULATED DEPRECIATION				
Subtotal	(3,197,744)	(167,266)	2,233	(3,362,777)
Capital Assets – Net of Depreciation	\$1,487,147	(\$49,885)	(\$3,723)	\$1,433,539

Business Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
ASSETS				
Land	\$14,432	-	-	\$14,432
Water & Sewer System	6,526,608	\$2,727,626	-	9,254,234
Subtotal	6,541,040	2,727,626	-	9,268,666
ACCUMULATED DEPRECIATION				
Water & Sewer System	(2,080,319)	(171,334)	-	(2,251,653)
Capital Assets – Net of Depreciation	\$4,460,721	\$2,556,292	-	\$7,017,013

City of Ithaca
Notes to Financial Statements

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$45,081
Public Safety	50,776
Recreation and Culture	4,851
Internal Service Fund	66,558
Total Governmental Activities	167,266
Business-Type Activities	
Water and Sewer	171,334
Total Business-Type Activities	\$171,334

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

Long-Term Debt

The City's long-term debt as of June 30, 2008 is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 15 and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees, and 44 days for police officers, are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at June 30, 2008 and 2007 was \$43,956 and \$42,706, respectively.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay will be paid to the employee, depending on their date of hire. Sick leave pay liability at June 30, 2008 and 2007 was \$53,055 and \$44,421, respectively.

City of Ithaca
Notes to Financial Statements

Note Payable – The Note Payable consists of a fire truck loan due in annual installments of \$16,909 through October 2008. Interest is at 4.46% per annum. As of June 30, 2008 and 2007, the balance of this note payable is \$17,263 and \$47,459, respectively.

Debt balances and transactions for the year ended June 30, 2008 are as follows for this note payable:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Fire Truck Note Payable	\$32,705	-	\$15,442	\$17,263	\$17,263

Enterprise Fund Bonds

Bonds payable at June 30, 2008 consist of the \$4,100,000 Unlimited Tax General Obligation Bonds due in annual installments of \$170,000 to \$210,000 through November 2037. Interest is at annual rates of 4.25% to 4.40%. The bond proceeds were used to improve and extend the City's Water Supply and Sewage Disposal System.

Debt balances and transactions for the year ended June 30, 2008 are as follows for the enterprise fund bonds:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Refunding Bonds	\$4,100,000	-	-	\$4,100,000	-
Deferred Amount on Bond Issuance	(41,000)	-	\$1,367	(39,633)	(\$1,367)
Total	\$4,059,000	-	\$1,367	\$4,060,367	(\$1,367)

Issuance of Debt

On April 1, 2007, the City issued the 2007 Unlimited Tax General Obligation Bonds. These bonds were sold at a discount of \$41,000, which was recorded as a deferred asset. The deferred asset will be amortized as an expense over the remaining life of the bond, which amounts to \$1,367 per year, for a total of 30 years.

City of Ithaca
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$17,263	\$174,795
2010	-	174,795
2011	25,000	174,795
2012	60,000	173,733
2013	65,000	171,183
2014-2018	400,000	810,225
2019-2023	555,000	713,750
2024-2028	805,000	575,413
2029-2033	1,100,000	378,850
2034-2038	1,090,000	120,400
Totals	\$4,117,263	\$3,467,939

Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employee Retirement and Benefit Systems

MERS Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers some of the City's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

City of Ithaca
Notes to Financial Statements

The most recent period for which actuarial data was available was for the year ended December 31, 2007. The City's payroll for the employees covered by the system for the year ended December 31, 2007 was \$394,394.

As of December 31, 2007, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	15
Active plan participants – vested	10
Vested former members	5
Total	30

Funding Policy

Under the provisions of this plan, members contribute 4.7% of annual compensation. If a member leaves the municipality, or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

City of Ithaca
Notes to Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2007. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2007, the assets were less than the pension benefit obligation by \$784,184, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$2,431,620
Terminated employees not yet receiving benefits	157,024
Current Employees:	
Accumulated employee contributions including Allocated investment income	295,208
Employer financed	810,993
Total actuarial accrued liability	3,694,845
Net assets available for benefits at actuarial value (market = \$2,944,615)	2,910,661
Unfunded actuarial accrued liability	\$784,184
GASB 27 Information	
Fiscal Year Beginning	July 1, 2009
Annual Required Contribution (ARC)	\$85,940
Amortization factor used – under-funded liabilities (30 years)	.085453

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-05	2,664,287	3,165,313	(501,026)	84%	596,323	84%
12-31-06	2,808,295	3,621,745	(813,450)	78%	428,217	190%
12-31-07	2,910,661	3,694,845	(784,184)	79%	784,184	199%

City of Ithaca
Notes to Financial Statements

MERS Defined Contribution Plan

Plan Description

The City of Ithaca also participates in the MERS Uniform Defined Contribution Program.

Various full-time employees of the City are eligible to participate in the plan. As of June 30, 2008, the plan's current membership was 10 employees.

A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant and specifies how contributions to the individual's account are to be determined. The amounts participant's receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

Funding Policy

Participants contribute between 1% - 5% of their annual salary. The City matches participant contribution percentages, plus one additional percentage. City contributions, therefore, range between 2% - 6% of each participant's annual salary. Participants are 100% vested in the employer contributions after five years of service with the City.

During the year, the actual contributions to the plan amounted to \$30,740, which includes \$10,333 of employer contributions, and \$20,408 of employee contributions.

REQUIRED SUPPLEMENTARY INFORMATION



City of Ithaca
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes and penalties	\$883,921	\$890,371	\$884,810	(\$5,561)
Licenses and permits	64,250	59,750	68,816	9,066
State grants	452,886	452,886	492,411	39,525
Interest and rentals	37,100	37,100	33,389	(3,711)
Other revenues	<u>61,600</u>	<u>34,100</u>	<u>41,247</u>	<u>7,147</u>
Total revenues	1,499,757	1,474,207	1,520,673	46,466
Expenditures				
General government	664,817	626,067	660,167	(34,100)
Public safety	405,950	401,450	431,316	(29,866)
Public works	94,000	248,715	240,975	7,740
Recreation and cultural	<u>91,940</u>	<u>91,940</u>	<u>98,516</u>	<u>(6,576)</u>
Total expenditures	<u>1,256,707</u>	<u>1,368,172</u>	<u>1,430,974</u>	<u>(62,802)</u>
Excess of revenues over (under) expenditures	243,050	106,035	89,699	(16,336)
Other financing sources (uses)				
Transfers in	50,600	69,329	27,355	(41,974)
Transfers out	<u>(276,693)</u>	<u>(173,807)</u>	<u>(168,340)</u>	<u>5,467</u>
Total other financing sources (uses)	<u>(226,093)</u>	<u>(104,478)</u>	<u>(140,985)</u>	<u>(36,507)</u>
Excess of revenues and other sources over (under) expenditures and other uses	16,957	1,557	(51,286)	(52,843)
Fund balance, beginning of year	<u>392,826</u>	<u>392,826</u>	<u>392,826</u>	<u>-</u>
Fund balance, end of year	<u>\$409,783</u>	<u>\$394,383</u>	<u>\$341,540</u>	<u>(\$52,843)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Major Street Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants	\$230,245	\$230,245	\$221,862	(\$8,383)
Interest and rentals	3,000	3,000	5,505	2,505
Other revenues	<u>-</u>	<u>-</u>	<u>99</u>	<u>99</u>
Total revenues	233,245	233,245	227,466	(5,779)
Expenditures				
Public works	<u>271,960</u>	<u>271,960</u>	<u>362,851</u>	<u>(90,891)</u>
Total expenditures	<u>271,960</u>	<u>271,960</u>	<u>362,851</u>	<u>(90,891)</u>
Excess of revenues over (under) expenditures	(38,715)	(38,715)	(135,385)	(96,670)
Other financing sources (uses)				
Transfers out	<u>(131,141)</u>	<u>(131,141)</u>	<u>(81,398)</u>	<u>49,743</u>
Total other financing sources (uses)	<u>(131,141)</u>	<u>(131,141)</u>	<u>(81,398)</u>	<u>49,743</u>
Excess of revenues and other sources over (under) expenditures and other uses	(169,856)	(169,856)	(216,783)	(46,927)
Fund balance, beginning of year	<u>237,341</u>	<u>237,341</u>	<u>237,341</u>	<u>-</u>
Fund balance, end of year	<u><u>\$67,485</u></u>	<u><u>\$67,485</u></u>	<u><u>\$20,558</u></u>	<u><u>(\$46,927)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Local Street Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants	\$63,309	\$63,309	\$58,987	(\$4,322)
Contribution from local units	-	-	8,160	8,160
Interest and rentals	200	200	187	(13)
Other revenues	<u>-</u>	<u>-</u>	<u>18,164</u>	<u>18,164</u>
Total revenues	63,509	63,509	85,498	21,989
Expenditures				
Public works	<u>194,650</u>	<u>194,650</u>	<u>186,150</u>	<u>8,500</u>
Total expenditures	<u>194,650</u>	<u>194,650</u>	<u>186,150</u>	<u>8,500</u>
Excess of revenues over (under) expenditures	(131,141)	(131,141)	(100,652)	30,489
Other financing sources (uses)				
Transfers in	<u>131,141</u>	<u>161,141</u>	<u>111,398</u>	<u>(49,743)</u>
Total other financing sources (uses)	<u>131,141</u>	<u>161,141</u>	<u>111,398</u>	<u>(49,743)</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	30,000	10,746	(19,254)
Fund balance, beginning of year	<u>(9,642)</u>	<u>(9,642)</u>	<u>(9,642)</u>	<u>-</u>
Fund balance, end of year	<u><u>(\$9,642)</u></u>	<u><u>\$20,358</u></u>	<u><u>\$1,104</u></u>	<u><u>(\$19,254)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Library Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State sources	\$3,400	\$9,051	\$9,095	\$44
Charges for services	2,500	2,500	3,113	613
Fines and forfeits	106,165	128,581	128,266	(315)
Interest and rentals	7,200	7,200	8,209	1,009
Other revenues	<u>4,500</u>	<u>8,128</u>	<u>9,849</u>	<u>1,721</u>
 Total revenues	 123,765	 155,460	 158,532	 3,072
Expenditures				
Recreation and cultural	<u>122,480</u>	<u>121,740</u>	<u>116,697</u>	<u>5,043</u>
 Total expenditures	 <u>122,480</u>	 <u>121,740</u>	 <u>116,697</u>	 <u>5,043</u>
 Excess of revenues over (under) expenditures	 1,285	 33,720	 41,835	 8,115
 Fund balance, beginning of year	 <u>103,599</u>	 <u>103,599</u>	 <u>103,599</u>	 <u>-</u>
 Fund balance, end of year	 <u><u>\$104,884</u></u>	 <u><u>\$137,319</u></u>	 <u><u>\$145,434</u></u>	 <u><u>\$8,115</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Economic Development Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	\$250	\$250	\$157	(\$93)
Other revenues	<u>3,000</u>	<u>3,000</u>	<u>21,500</u>	<u>18,500</u>
Total revenues	3,250	3,250	21,657	18,407
Expenditures				
General government	<u>-</u>	<u>-</u>	<u>18,500</u>	<u>(18,500)</u>
Excess of revenues over (under) expenditures	3,250	3,250	3,157	(93)
Fund balance, beginning of year	<u>31,547</u>	<u>31,547</u>	<u>31,547</u>	<u>-</u>
Fund balance, end of year	<u>\$34,797</u>	<u>\$34,797</u>	<u>\$34,704</u>	<u>(\$93)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Fire Operating Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal grants	-	\$11,264	\$19,952	\$8,688
Charges for services	\$110,585	110,585	110,585	-
Interest and rentals	-	-	1,865	1,865
Other revenues	-	1,050	11,195	10,145
Total revenues	110,585	122,899	143,597	20,698
Expenditures				
Public safety	143,322	155,636	160,938	(5,302)
Total expenditures	143,322	155,636	160,938	(5,302)
Excess of revenues over (under) expenditures	(32,737)	(32,737)	(17,341)	15,396
Other financing sources (uses)				
Transfers in	69,646	69,646	69,646	-
Transfers out	(36,909)	(36,909)	(36,909)	-
Total other financing sources (uses)	32,737	32,737	32,737	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	15,396	15,396
Fund balance, beginning of year	45,427	45,427	45,427	-
Fund balance, end of year	<u>\$45,427</u>	<u>\$45,427</u>	<u>\$60,823</u>	<u>\$15,396</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule - Gibbs Memorial Fund
 For the Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	\$7,000	\$7,000	\$6,784	(\$216)
Other revenues	<u>38,382</u>	<u>38,382</u>	<u>-</u>	<u>(38,382)</u>
Total revenues	45,382	45,382	6,784	(38,598)
Expenditures				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	45,382	45,382	6,784	(38,598)
Other financing sources (uses)				
Transfers out	<u>(50,600)</u>	<u>(50,600)</u>	<u>(8,626)</u>	<u>41,974</u>
Total other financing sources (uses)	<u>(50,600)</u>	<u>(50,600)</u>	<u>(8,626)</u>	<u>41,974</u>
Excess of revenues and other sources over (under) expenditures and other uses	(5,218)	(5,218)	(1,842)	3,376
Fund balance, beginning of year	<u>241,222</u>	<u>241,222</u>	<u>241,222</u>	<u>-</u>
Fund balance, end of year	<u><u>\$236,004</u></u>	<u><u>\$236,004</u></u>	<u><u>\$239,380</u></u>	<u><u>\$3,376</u></u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION



City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	SPECIAL REVENUE FUNDS				
	<u>Cemetery Operating</u>	<u>First Responder</u>	<u>Cemetery Sinking</u>	<u>Fire & Rescue Sinking</u>	<u>Crime Prevention</u>
Assets					
Cash and cash equivalents	\$28,876	\$51,236	\$24,244	\$118,791	\$227
Accounts receivable - net	<u>-</u>	<u>3,852</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$28,876</u>	<u>\$55,088</u>	<u>\$24,244</u>	<u>\$118,791</u>	<u>\$227</u>
Liabilities					
Accounts payable	\$3,857	\$697	-	-	-
Accrued liabilities	<u>1,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,018</u>	<u>697</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance					
Unreserved, undesignated	<u>23,858</u>	<u>54,391</u>	<u>\$24,244</u>	<u>\$118,791</u>	<u>\$227</u>
Total fund balance	<u>23,858</u>	<u>54,391</u>	<u>24,244</u>	<u>118,791</u>	<u>227</u>
Total liabilities and fund balance	<u>\$28,876</u>	<u>\$55,088</u>	<u>\$24,244</u>	<u>\$118,791</u>	<u>\$227</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	SPECIAL REVENUE FUNDS			Permanent Fund	
	<u>Crime Victim's Rights</u>	<u>Drug Law Enforcement</u>	<u>Police Education & Training</u>	<u>Cemetery Perpetual Care</u>	<u>Totals</u>
Assets					
Cash and cash equivalents	\$125	\$1,120	\$1,679	\$24,909	\$251,207
Accounts receivable - net	-	-	-	-	3,852
Total assets	<u>\$125</u>	<u>\$1,120</u>	<u>\$1,679</u>	<u>\$24,909</u>	<u>\$255,059</u>
Liabilities					
Accounts payable	-	-	-	-	\$4,554
Accrued liabilities	-	-	-	-	1,161
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,715</u>
Fund balance					
Reserved for perpetual care	-	-	-	\$24,909	24,909
Unreserved, undesignated	<u>\$125</u>	<u>\$1,120</u>	<u>\$1,679</u>	<u>-</u>	<u>224,435</u>
Total fund balance	<u>125</u>	<u>1,120</u>	<u>1,679</u>	<u>24,909</u>	<u>249,344</u>
Total liabilities and fund balance	<u>\$125</u>	<u>\$1,120</u>	<u>\$1,679</u>	<u>\$24,909</u>	<u>\$255,059</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2008

	SPECIAL REVENUE FUNDS				
	<u>Cemetery Operating</u>	<u>First Responder</u>	<u>Cemetery Sinking</u>	<u>Fire & Rescue Sinking</u>	<u>Crime Prevention</u>
Revenues					
Charges for services	\$15,584	\$36,268	\$3,082	-	-
Contribution from local units	-	1,075	-	-	-
Interest and rentals	464	1,786	409	\$2,357	-
Other revenues	128	360	-	-	-
Total revenues	16,176	39,489	3,491	2,357	-
Expenditures					
General government	55,490	-	-	-	-
Public safety	-	60,416	-	-	-
Debt service	-	-	-	16,909	-
Total expenditures	55,490	60,416	-	16,909	-
Excess of revenues over (under) expenditures	(39,314)	(20,927)	3,491	(14,552)	-
Other financing sources (uses)					
Transfers in	40,000	38,694	-	40,909	-
Transfers out	-	(4,000)	(10,000)	-	-
Total other financing sources (uses)	40,000	34,694	(10,000)	40,909	-
Excess of revenues and other sources over (under) expenditures and other uses	686	13,767	(6,509)	26,357	-
Fund balance, beginning of year	23,172	40,624	30,753	92,434	\$227
Fund balance, end of year	<u>\$23,858</u>	<u>\$54,391</u>	<u>\$24,244</u>	<u>\$118,791</u>	<u>\$227</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2008

	SPECIAL REVENUE FUNDS			Permanent Fund	
	Crime Victim's Rights	Drug Law Enforcement	Police Education & Training	Cemetery Perpetual Care	Totals
Revenues					
Charges for services	-	-	-	-	\$54,934
Contribution from local units	-	-	-	-	1,075
Interest and rentals	-	-	-	\$860	5,876
Other revenues	-	-	\$1,288	350	2,126
Total revenues	-	-	1,288	1,210	64,011
Expenditures					
General government	-	-	-	-	55,490
Public safety	-	-	\$385	-	60,801
Debt service	-	-	-	-	16,909
Total expenditures	-	-	385	-	133,200
Excess of revenues over (under) expenditures	-	-	903	1,210	(69,189)
Other financing sources (uses)					
Transfers in	-	-	-	-	119,603
Transfers out	-	-	-	-	(14,000)
Total other financing sources (uses)	-	-	-	-	105,603
Excess of revenues and other sources over (under) expenditures and other uses	-	-	903	1,210	36,414
Fund balance, beginning of year	\$125	\$1,120	776	23,699	212,930
Fund balance, end of year	\$125	\$1,120	\$1,679	\$24,909	\$249,344

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Council
City of Ithaca
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe the significant deficiency described above as 2008-1, is not a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated August 10, 2008.

The City of Ithaca's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 10, 2008

Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended June 30, 2008, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the City does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



Management Letter

City of Ithaca
Ithaca, Michigan

In planning and performing our audit of the financial statements of the City of Ithaca for the fiscal year ended June 30, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 10, 2008 on the financial statements of the City of Ithaca.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Co, PC'.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 10, 2008

Reconcile Accounts Receivable Quarterly

At the start of our audit, we noted that accounts receivable and the related revenue for water and sewer services provided by the City appeared unusually large. Upon further investigation we found that the accounts receivable balance as of June 30, 2007 was not properly reversed out of the general ledger during the 2008 fiscal year. This resulted in accounts receivable being overstated by approximately 100% and the related revenues to be overstated by approximately 25%.

In order to ensure proper valuation of the above accounts, we recommend that a reconciliation of the detail accounts receivable subsidiary ledger to the accounts receivable control account be performed on a quarterly basis, after the billing process is complete. Any reconciling items should be promptly investigated and addressed. In addition, a member of management should review and initial the reconciliation to ensure propriety and completeness.

Uninsured Bank Deposits

As of June 30, 2008, a large portion of the City's deposits with financial institutions was uninsured and uncollateralized. During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits.

Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage. As of June 30, 2008, FDIC coverage was limited to \$100,000 per entity per financial institution. Beginning October 3, 2008, the limit for FDIC insurance was increased to \$250,000 per entity per financial institution. Although favorable, this increase would still leave a majority of the City's deposits uninsured.

We encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the City's goals.